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Improving the financial situation of the United Nations

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Report of the Secretary-General

Addendum

I. Introduction

1. The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/56/464). It also provides information on the financial situation of the Organization as at 31 December 2001 and projections to 31 December 2002.

II. Review of the financial situation as at 31 December 2001

Overview

2. The overall financial situation of the United Nations during 2001 was better, both by way of liquidity and of flexibility.

3. The better financial picture at 31 December 2001 was not, however, the only accomplishment in the managerial and administrative arena. There were others, including the establishment of an enhanced staff security plan with the entire United Nations system sharing the costs; design work which began for the comprehensive plan to renovate the Headquarters complex; the roll-out of the Organization's Integrated Management Information System (IMIS) to all established duty stations, with plans being developed for a further roll-out to peacekeeping missions; more responsibility and accountability for personnel matters being devolved to programme managers; and finally the needs of peacekeeping were addressed, with resources committed to achieving the support plan for peacekeeping operations.

4. Despite those achievements, new challenges emerged in 2001 which could have an impact on 2002, particularly the challenge to the Organization of operating within a reduced regular budget appropriation in real terms.

5. The accomplishments of 2001 could not have been successfully sustained without an adequate financial base. For the United Nations, an adequate financial base continues to be defined in terms of three components, namely, cash on hand, the level of unpaid assessments and debt owed to Member States.

6. In 2001, all three of these components were better than in 2000. Aggregate cash was higher, unpaid assessments lower and debt owed by the Organization to Member States reduced. Overall, total combined cash, including regular budget, peacekeeping and the tribunals together, was substantially higher at the end of 2001, up 32 per cent from 2000 at $1,326 million. Unpaid assessments were 7 per cent lower at the end of

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2001 than in 2000 at $2,106 million, and amounts due to Member States for troops and contingent-owned equipment were down 18 per cent from 2000 at $748 million.

End-year aggregate cash position

7. Contributions from all Member States in 2001 totalled $4,437 million, representing the highest level of contributions received in any one year in the Organization's history.

8. This high level was the result of several factors. First, the United States of America paid a total of $1,669 million in contributions in 2001. That amount included a regular budget payment of $267 million, plus an additional voluntary payment of $31 million. In addition, the United States paid an amount of $43 million, equivalent to most of its tribunals assessments for 2001. A large part of their current year's peacekeeping assessment was also paid, as well as the second tranche of the United States' arrears payment of $582 million, for a total peacekeeping payment of $1,328 million.

9. Payments made in 2001 by other Member States, however, were lower than originally forecast, at $2,796 million instead of $3,050 million. The lower actual payment was not unusual, however, as peacekeeping assessments in 2001 grew rapidly and assessments were authorized late in the year.

10. As a result of those payments, aggregate cash at the end of 2001 totalled $1,326 million, a higher level than in the last several years. A different picture emerges, however, if that figure is disaggregated showing peacekeeping, regular budget and tribunals cash separately. At year-end, peacekeeping cash totalled $1,315 million, cash in the tribunal accounts totalled $9 million and regular budget cash, including related reserves, aggregated $2 million. Thus, the only significant cash available was in peacekeeping operations. Both regular budget and tribunal cash were very close to the zero mark.

Regular budget cash position

11. The actual regular budget year-end cash balance of $2 million followed the usual payment pattern of the largest contributor and of other Member States. While the year-end figure was positive, however, the monthly cash-flow variations followed the usual pattern of recent years with high levels of payments from Member States in January, February and March, declining levels from April to July, and few payments in the second half of the year. That led to periodic cash deficits in regular budget cash towards the end of the year; $8 million was cross-borrowed from peacekeeping accounts in September and $30 million in November. Upon receipt of the United States' payment at year-end, peacekeeping accounts were repaid and a cash balance of $2 million remained. Cross-borrowing from peacekeeping operations was therefore necessary during the year to maintain ongoing regular budget operations.

12. Unfortunately, recurring cash deficits in the last months of each year have become a chronic situation for the regular budget. It will only be set right when all Member States pay their regular budget assessments when they are due in accordance with Financial Regulation 5.4, that is, normally by 31 January.

13. If progress is to continue towards financial stability, not only must Member States pay on time, but they must also pay in full. Unfortunately, the progress made by a growing number of Member States that paid their regular budget assessment in full levelled off in 2001. From only 75 Member States in 1994, the number increased steadily to 141 in 2000. That number decreased to 135 at 21 December 2001.

14. The Secretary-General wishes to thank those that have continued to pay in full and especially thank them for their continuing commitment to meeting their obligations. He hopes that the decrease of 2001 will be temporary and encourages the membership to continue to improve in line with the positive trend of the past years. In that connection, the number of States paying their regular budget assessments in full by 31 January 2002 was 42, an increase from 39 in the prior year period.

Tribunals

15. For the two international tribunals, the year-end cash balance was $9 million. That represents a small amount of cash for activities which together cost almost $200 million per year and have a staffing complement of over 1,800.

16. The cash in the tribunals accounts at the beginning of 2001 was $16 million. That balance quickly decreased in February to $9 million. Payments

throughout the next eight months provided sufficient cash to maintain the tribunals. However, late in the year, cash again fell to a low of $9 million. Those low cash balances are a particular concern since disbursements largely relate to salary and travel obligations, which must be paid currently and cannot be deferred. Any negative cash flow position must therefore be handled through borrowing.

17. In fact, limited cross-borrowing between the tribunals did occur. At current low levels of cash, however, there may not be enough cash resources to cross-borrow between the two tribunals. That would create a situation where other sources of cross-borrowing would need to be identified.

Peacekeeping

18. The level of peacekeeping cash has followed the level of assessments. In 2001, peacekeeping assessments reached just over $3 billion, almost at the level of the highest years of 1994 and 1995.

19. The year 2001 began with an available cash balance of $908 million. Peacekeeping cash remained at about the same level throughout the year. However, with the cash payment of $475 million of arrears from the United States in November, as well as the arrears payment of $43 million from the Russian Federation, cash levels increased to $1.9 billion at the end of November. The reimbursements to Member States from the arrears payments received in 2001 and the usual disbursements for yearly obligations brought the year-end balance back to the same level as at the beginning of the year, $1.3 billion.

Unpaid assessments

20. Total unpaid assessments of $2,106 million were lower at year-end 2001 than in 2000, when they stood at $2,259 million. That relatively modest decrease occurred despite significant peacekeeping arrears payments and the overall high level of unpaid assessments remains a concern.

Regular budget

21. For the regular budget, outstanding amounts at the end of 1999, 2000 and 2001 were all around $220 million to $240 million, a level far below that of 1998 when unpaid regular budget assessments stood at $417 million. The lower level of 1999 to 2000 reflects efforts made by Member States, including the United States, which began at that time to pay each year an amount equivalent to its full year's regular budget assessment.

22. At the end of 2001, the United States, Brazil and Argentina together owed 85 per cent of all unpaid regular budget assessments. The United States owed 69 per cent, Brazil 9 per cent, and Argentina 7 per cent. The remaining 15 per cent was owed by 51 other Member States.

Peacekeeping

23. As for peacekeeping assessments, the amount unpaid at 31 December 2001 aggregated $1,823 million, a decrease of $166 million from the year before. Changes in the position of two Member States, the United States and the Russian Federation, largely accounted for that decrease. In the case of the United States, the receipt of long overdue assessments in arrears in full was the principal factor in unpaid peacekeeping assessments decreasing by $453 million. In the case of the Russian Federation, its plan to pay its peacekeeping arrears in full was achieved. The Russian Federation had no outstanding peacekeeping assessments at the end of 2001. However, an aggregate increase of peacekeeping arrears of $334 million for other Member States, partially offset those significant payments.

Tribunals

24. At 31 December 2001, unpaid assessments for the international tribunals aggregated $44 million, a reduction of $3 million from the year before. A total of 81 per cent of the unpaid assessments was due from just three Member States. The United States owed 33 per cent of the total, the Russian Federation 32 per cent and Brazil 16 per cent. A total of 110 other Member States together owed the remaining 19 per cent.

Debt to Member States

25. As for debts to Member States, a particularly crucial component of the Organization's financial

health, it should be recalled that, as a matter of policy, the Secretary-General has paid to Member States any amounts received from the collection of assessments long in arrears.

26. With the receipt of $582 million from the United States as the second tranche of its arrears payment, $530 million of that amount was paid out to Member States before the end of December. The payout of the remaining $52 million was pending final certification of claims as well as settlement of inter-mission loans and is expected in 2002. At year-end, the Organization was thus current on all certified claims pending in accounts payable, except for United Nations Transitional Authority in Cambodia (UNTAC), United Nations Operation in Mozambique (ONUMOZ) and United Nations Mission in the Central African Republic (MINURCA), where cash continues to be unavailable to make payments.

27. As concerns debt for troops and contingent-owned equipment, the Organization owed Member States $917 million at 1 January 2001. Most of that amount, $753 million, was owed for contingent-owned equipment with a smaller amount, $164 million, owed for troops. During the course of 2001, payments of $181 million were made to Member States for 2000 obligations that had not been paid during 2000. New obligations undertaken in 2001, some $740 million, were higher than the amount forecast earlier. The higher figure reflected, for the most part, the full deployment of troops in a number of missions, particularly United Nations Mission in Ethiopia and Eritrea (UNMEE) and United Nations Organization Mission in the Democratic Republic of the Congo (MONUC). In addition to higher current costs, the actual payout in 2001 was less than expected, at only $328 million. That was due to delays in the signing of memoranda of understanding by Member States, as well as a postponement of one month's troop payments during the course of 2001 which was paid in early 2002. Additionally, as a result of the further paydown of debt from the United States arrears payment, a total of $401 million relating to troops and equipment was paid out by the end of the year. As a result, debt for troops and equipment was reduced to $748 million at year's end.

28. The aggregate debt level, including troops, contingent-owned equipment, letters of assist and death and disability claims to Member States, was substantially reduced from a total debt level of $1.1 billion at the beginning of the year to $800 million at year end.

29. In summary, 2001 was a better and more productive year, with many achievements for the Organization and Member States. However, new challenges now lie ahead, beginning with the level of real resources budgeted for the Organization for 2002-2003.

III. Projections and challenges for 2002

30. The General Assembly, in its resolution 56/254 A to C of 24 December 2001, reduced the Secretary-General's budget request for 2002-2003 by $75 million in real terms. While the budget for 2000-2001 included an increase of $165 million, that related to requirements for inflation and currency in accordance with the Organization's budget methodology, the real level of resources voted by the General Assembly actually fell by $75 million. In order to accommodate the reduction in real resources, the Secretary-General has implemented measures in several support areas that have the potential to allow the Organization to function within the resources appropriated.

31. The projected cash flow situation for 2002 for the regular budget, peacekeeping accounts and the tribunals also foreshadow possible challenges for the Organization.

Regular budget

32. Beginning with the regular budget, current year-end projections indicate that cash for the regular budget and related reserves at the end of 2002 will be zero against a positive balance of $2 million on 31 December 2001. This projection assumes full payment by the major contributors of the amount of their 2002 assessment and a similar pattern of payment as in 2001 by other contributors. On that basis, it is expected that the regular budget will experience a cash deficit at various points during the second half of the year, before ending the year with a zero balance. The situation of the regular budget therefore remains very fragile.

Tribunals

33. As for the tribunals, although a positive cash balance totalling $11 million by 31 December 2002 is projected, it is anticipated that one or both of the tribunals will need to cross-borrow cash during the year. In fact, the tribunals experienced a cash deficit in February. In future, cross-borrowing from peacekeeping operations may become a necessity.

Peacekeeping

34. Projections for peacekeeping are the hardest to make as the assumptions used to develop them can change significantly at any time during the year. With that in mind, current projections forecast the cash balance for peacekeeping operations at the end of 2002 to be around $1.3 billion. This projection reflects a level of peacekeeping assessments in 2002 at around the same level as for 2001.

35. Peacekeeping assessments continue to be concentrated in six large missions: the United Nations Mission in Sierra Leone (UNAMSIL), MONUC, the United Nations Interim Administration Mission in Kosovo (UNMIK), the United Nations Transitional Administration in East Timor (UNTAET), UNMEE and the United Nations Interim Force in Lebanon (UNIFIL). Assessments for these six missions are forecast to total $2.6 billion. The remaining six missions, the United Nations Disengagement Observer Force (UNDOF), the United Nations Peacekeeping Force in Cyprus (UNFICYP), the United Nations Iraq-Kuwait Observation Mission (UNIKOM), the United Nations Mission for the Referendum in Western Sahara (MINURSO), the United Nations Mission in Bosnia and Herzegovina (UNMIBH) and the United Nations Observer Mission in Georgia (UNOMIG), are together expected to require around $200 million in 2002.

36. Looked at individually, the projected assessment levels for the largest missions in 2002 show some significant changes compared with actual figures for 2001. UNAMSIL and MONUC show dramatic increases, with an increase of 54 per cent over last year for UNAMSIL and an increase of 188 per cent for MONUC. On the other hand, projections for UNMIK, UNTAET, UNMEE, UNMIBH and UNIFIL show large decreases in assessment levels. The percentage decreases from 2001 to 2002 range between 33 and 78 per cent.

37. The variations in assessment levels highlight the changes that can and do occur from year to year. Nevertheless, on the basis of these assessment projections, which are difficult to predict at best, the pattern over the course of 2002 shows contributions fluctuating, but not differing greatly from past contribution patterns. As usual, higher receipts are expected during the months after assessments are issued, lower receipts in between, with the highest level in October reflecting receipt of the largest portion of the major contributor's peacekeeping contributions. The year is projected to end with a combined balance of $1.3 billion, similar to that at the beginning of the year.

Debt to Member States

38. As for debt owed to Member States, 2002 started with a figure of $748 million. New obligations in 2002 are projected to be substantially higher, at $811 million, but total disbursements are also expected to be large, around $890 million for troop and equipment debt. This aggregate amount will be paid in instalments throughout the year, with a considerably lower total level of debt forecast for troops and contingent-owned equipment at year end: $666 million.

39. At the end of 2002, it is expected that all troop obligations through July 2002 will be paid, leaving only six months of outstanding troop costs. In addition, it is forecast that obligations for contingent-owned equipment will have decreased substantially from the much higher levels of earlier years.

Combined cash balances

40. Based on these projections of income and expenditure, total cash balances at the end of 2002 are expected to be $1,328 million, made up of a zero balance for the combined regular budget accounts, $11 million for the international tribunals and $1,317 million for peacekeeping operations. This compares with $1,326 million at the end of 2001. Combined balances remain fairly high compared with recent years.

41. This relatively healthy total, however, masks a potential problem for the financial management of the Organization. Under the terms of General Assembly resolution 53/241 concerning Kosovo, which were

subsequently included in all similar resolutions, the Secretary-General may no longer cross-borrow from active peacekeeping missions, only closed ones. Additionally, under its terms of reference, the Secretary-General may only borrow from the Peacekeeping Reserve Fund for new or expanded peacekeeping missions. Increasingly, therefore, overall cash resources may not be freely available for cross-borrowing to meet short-term cash deficits in the regular budget or tribunals.

42. At present, approximately $400 million is available in the accounts of completed peacekeeping operations. This is currently the only source of cross-borrowing for the regular budget and fluctuating needs for ongoing peacekeeping missions. As final reports will be presented on several of these closed missions in 2002, these resources could become depleted. In that case, the Organization could lose its safety valve and face the very real possibility of further financial stress, if the cash resources in other accounts are depleted. It is important that Member States are aware of this impending problem. The Secretary-General intends to keep the situation under review and will make additional proposals if required.

IV. Conclusion

43. Significant improvements in the financial situation of the Organization in 2001 were achieved. Arrears were reduced, as was the Organization's debt to troop and equipment providers, but significant arrears remain and reserves are depleted. Decisions that have been and may be taken by the General Assembly have reduced the Organization's flexibility in dealing with temporary cash shortfalls and may lead to serious cash difficulties in future. The Secretary-General is committed to addressing these problems, but success depends on the support and commitment of Member States to the Organization.